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IN THE

Supreme Court of the United States

October Term, 1966

No. 1148

HULBURT OIL & GREASE COMPANY,
an Illinois Corporation,
Petitioner

v.

HULBURT OIL & GREASE COMPANY,
a Pennsylvania Corporation

PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

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Petition

IN THE SUPREME COURT OF THE UNITED STATES

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No.

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Petitioner

v.

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PETITION FOR WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

To the Honorable, the Chief Justice and Associate Justices of the Supreme Court of the United States:

Petitioner, Hulburt Oil & Grease Company, an Illinois Corporation, prays that a Writ of Certiorari issue to review the judgment of the United States Court of Appeals for the Seventh Circuit, entered in the above case on December 19, 1966.

OPINIONS BELOW

The Opinion of the trial Court, printed in the Appendix for Petitioner (p. 43) for use of the Court below, nine copies of which are filed herewith, is unreported. The opinion of the United States Court of Appeals for the Seventh Circuit, printed as Appendix A, hereto, is reported at F. 2d . The Order of said Court of Appeals is printed as Appendix B hereto.

JURISDICTION

The judgment of the United States Court of Appeals for the Seventh Circuit was entered on December 19, 1966 (Appendix B). The jurisdiction of this Court is invoked under 28 U.S.C., Section 1254(1).

QUESTIONS PRESENTED

1. Where a foreign Pennsylvania corporation has been doing business in the State of Illinois without a certificate of authority, and the public policy of such State, as provided by statute, prevents the maintenance of an action at law or in equity by any nonauthorized foreign corporation transacting business in that state is not the judgment of the Seventh Circuit which sanctions the maintenance of an action an unlawful interference with such public policy and therefore error?

2. Does incorporation in one state, Pennsylvania, create a constitutional equitable right to the name of the domestic corporation throughout the United States, especially Illinois?

STATEMENT OF THE CASE

This was a civil action calling for a mandatory injunction to require Petitioner to change its name because the defendant, incorporated in Illinois, adopted the same name as the plaintiff Pennsylvania corporation. Except where noted all page references are to the appendix of defendant-appellant used before the Seventh Circuit.

The cause of action arose out of the incorporation of Hulburt Oil & Grease Company, an Illinois corporation, on May 21, 1964. Plaintiff commenced the instant action on August 3, 1964, in the Illinois Federal District Court. It is undisputed that the Illinois corporation has not engaged in business since its incorporation, and was created for the purpose of holding the name of "Hulburt Oil and Grease Company" for John R. Michael (Finding of Fact No. 18) (p. 45), its sole stockholder.

The basic issue involved was whether or not John R. Michael a resident of Pennsylvania, could legally incorporate the name under the laws of Illinois, or whether he was under some legal or equitable disability which would deny him that right. The plaintiff Pennsylvania corporation did not sue John R. Michael in Illinois, where the courts had no jurisdiction over Mr. Michael and to join him would deprive the Illinois Federal Court of diversity jurisdiction, but instead sued the Illinois corporation alone to compel it to change its name, to enjoin the use of its name, and sought damages for the incorporation.

A preliminary injunction was issued which was affirmed by the Seventh Circuit, and Certiorari denied by

this Court, which permitted the matter to be tried: *Hulburt Oil & Grease Co. v. Hulburt Oil & Grease Co.*, 346 F. 2d 260 (7th Cir.), cert. denied, 382 U.S. 835 (1965).

The Answer to the Complaint raised several defenses (pp. 11-18), including the defenses that plaintiff was barred from maintaining the action since it had been doing business in Illinois without a certificate of authority, that it failed to join indispensable parties necessary to legally change the name, that John R. Michael, had a consulting agreement with the plaintiff as an "independent agent" wherein his covenant not to compete was severely limited so as not to restrict his right to reserve defendant's corporate name, that he was subsequently given a complete general release from all duties owed the plaintiff, and that plaintiff corporation, not being a citizen within the meaning of section 2 of article 4 of the United States Constitution, could be excluded by the State of Illinois by the incorporation of defendant.

Defendant duly demanded trial by jury (p. 18).

The case was called for trial December 27, 1965. The Court refused to strike a jury. Defendant immediately (December 27, 1965) filed a Petition for Writ of Mandamus with the Seventh Circuit to compel the Court to swear in a jury. (Docket Entries, p. 6, plaintiff's Appendix) which Petition was denied January 17, 1966 (p. 7, plaintiff's Appendix), after the trial was concluded December 30, 1965.

At the trial the Court admitted evidence over defendant's objection, on the question of damages, testimony of plaintiff's counsel as to the counsel fees paid by plaintiff for the prosecution of this suit. This was the basis for the damages awarded although plaintiff was unable to

prove that it has sustained any damages by virtue of the incorporation of defendant and had not claimed counsel fees in its Complaint (pp. 9-10).

The Final Order dated January 5, 1966 (pp. 50-51), enjoined defendant from using its name, mandatorily enjoined defendant to change its name and awarded plaintiff's counsel fees as compensatory damages and $1.00 as punitive damages.

The appeal to the Seventh Circuit was argued before a panel on September 28, 1966, and resulted in the affirmance of the Judgment by Judgment dated December 19, 1966 (Appendix B attached hereto).

The Court of Appeals disapproved of the law of Illinois (p. 21, Appendix A, attached hereto) by asserting it was "legally unsound", held that the Illinois public policy contained in its Statutes was not a bar to the maintenance of the action, held that the defense of failure to join indispensable parties was without merit, affirmed the award of damages, failed to consider the Consulting Agreement between plaintiff and its independent agent, John R. Michael, and instead termed him an "employee", failed to consider the general release given John R. Michael by plaintiff, and failed to consider the application of Section 2 of Article 4 of the Constitution of the United States under which this Court has held a foreign corporation may be entirely excluded by a sister state.

REASONS FOR GRANTING THE WRIT

I. The Opinion of the Court Deprives Defendant Its Constitutional Right of Existence

Each of the sovereign states has had the complete and unfettered right to determine what corporations shall be brought into existence. It has long been the settled rule of the Supreme Court of the United States that a corporation has no absolute right of recognition in other states but must depend for such recognition upon their assent. It follows as a matter of course that such assent may be granted or withheld in their discretion. The Supreme Court has repeatedly recognized the right of a state to exclude a foreign corporation from its borders, so long as no constitutional right is violated in such exclusion.

In *Wheeling Steel Corporation v. Glander,* 337 U.S. 562, 571, 93 L. Ed. 1544, 1551, 69 Sup. Ct. 1291, the U. S. Supreme Court said:

> ". . . The State may arbitrarily exclude them (foreign corporations) or may license them upon any terms it sees fit, apart from exacting surrender of rights derived from the Constitution of the United States. . ."

A State is not required to admit foreign corporations to carry on intrastate business within its borders: *Wheeling Steel Corporation v. Glander,* supra.

Reasons for Granting the Writ

A corporation is not a "citizen" of any state within the meaning of Section 2 of Article 4 of the United States Constitution which provides that "the citizens of each state shall be entitled to all privileges and immunities of citizens in the several states": *Grosjean v. American Press Co., Inc.*, 297 U.S. 233, 244, 80 L. Ed. 660, 56 Sup. Ct. 444, 447.

It is for this reason that a state may prescribe the conditions on which a foreign corporation may do business within its borders or may exclude it altogether therefrom. Such provisions do not entitle a corporation created by one state to exercise its special privileges in other states without their consent, or prevent a state from excluding foreign corporations from doing business or holding property within its limits, or from imposing conditions in permitting them to do so: *Bedford v. Eastern Building and Loan Assn. of Syracuse*, 181 U.S. 227, 45 L. Ed. 834, 21 Sup. Ct. 597. To place a contrary construction on these constitutional provisions would be utterly destructive of the independence and harmony of the states: *Paul v. Virginia*, 8 Wall. 168 (U.S. 1868), 19 L. Ed. 357.

On the other hand, for jurisdictional diversity of citizenship purposes, a corporation is treated, in effect, as a "citizen" of the state by which it was created: *Doctor v. Harrington*, 196 U.S. 579, 49 L. Ed. 606, 25 Sup. Ct. 355. The reason for this holding is that any other decision than this would have deprived the federal courts of jurisdiction over corporations created by the states: *The Bank of The United States v. Deveaux*, 5 Cranch 61 (U.S. 1809), 3 L. Ed. 38; *The Louisville, Cincinnati and Charleston Railroad Company v. Letson*, 2 How. 497 (U.S. 1844), 11 L. Ed. 353.

The trial judge was utterly confused on the foregoing legal principles. At the trial of this case he said (p. 25):

> "The Court: I may say right here and now that on that question of law, if the law of this state or any other state prohibited a corporation from coming into this state and bringing suit to protect its name or to protect its business, it would fly right in the face of the Constitution of the United States. It would be unconstitutional, and I would not even recognize the law of Illinois or any other state that would prohibit a citizen—and a corporation is a citizen for more than a hundred years, since John Marshall so declared—a corporation is a citizen and anything that would prohibit a citizen going from one state to another, free access—you know what the Constitution says, that the states must recognize the acts of other states and the citizens of all other states. Several phases of the Constitution are involved here."

Petitioner again raised the issue of whether the State of Illinois and Illinois alone had the Constitutional right to decide what name it would give to an Illinois corporation, before the Seventh Circuit (defendant-appellant's Brief, pp. 11 to 16). The Court below failed to consider or even discuss this Constitutional question.

The standards for obtaining a corporate name are laid down by the Business Corporation Act of the State of Illinois. The exclusive right to the use of a corporate name may be had by reserving the name; Ill. Rev. Stat. 1963, Ch. 32, Section 157.10, or by incorporating under the name; Ill. Rev. Stat. 1963, Ch. 32, Sections 157.47 and 157.48.

The plaintiff has not challenged the legality or constitutionality of that Illinois Statute which has been adopted in similar form by most all of the states. What gives, then, the plaintiff the right to defendant's name in Illinois? Plaintiff admittedly had not complied with the Illinois Statute (Finding of Fact No. 32, p. 46). Under the authorities cited above the State of Illinois had the constitutional right to refuse to qualify plaintiff because of the valid existence of the defendant.

Plaintiff has failed to state a claim and prove a cause of action against this defendant. Defendant has done nothing and transacted no business (p. 45) let alone done anything improper or illegal. Defendant merely exists as a legally created corporation. Its existence, pursuant to law, is held by the Seventh Circuit to be illegal. Such conclusion is constitutionally unwarranted.

Identical actions have been commenced against this defendant, the West Virginia Corporation by the same name and John R. Michael in the Commonwealth of Pennsylvania: *Hulburt Oil & Grease Co., a Pennsylvania corporation v. Hulburt Oil & Grease Co., an Illinois corporation, Hulburt Oil & Grease Co., a West Virginia corporation, John R. Michael,* 419 Pa. 608, 213 A. 2d 215 (1965).

The opinion of the Seventh Circuit mistakenly supposes that "during the last week of April 1964 while still in the plaintiff's employ, John R. Michael prompted his attorney to seek the assistance of the C-T Corporation System in 'determining' whether the name 'Hulburt Oil and Grease Company' was available for incorporation in a number of states, including Illinois." This is incorrect. John R. Michael was a party to a Consulting Agreement dated January 1, 1962, in which John R. Michael "was

hereby retaine(d) (not employed) . . . as an *independent agent* to perform . . . such advisory and consultative services on a part time basis as may be requested by the President" of the plaintiff. (Emphasis supplied) (p. 41).

In this Consulting Agreement it was specifically agreed between plaintiff and John R. Michael what the covenant against competition meant.

> "(3)(a) . . . This provision shall be construed to mean that Michael shall accept no employment with (including employment as a consultant) or become a holder of 25% or more interest in or a Director of any other organization which is in any way detrimental to the Company. . . ." (p. 42)

Being an independent agent with this covenant, John R. Michael had the constitutionally protected right to reserve any corporate name available to him under the law of Illinois. To disregard the plain meaning of this covenant and engraft thereon an employer-employee relationship, contrary to the contract of the parties, and to equate the reservation of a corporate name with the word "organization" when such was not in existence, is to give the plaintiff more than the bargain of its contract. He who runs can read.

The Michaels, that is, John R. Michael and his son David, the only two Michaels ever associated with plaintiff, were offered by plaintiff a sales franchise in several states, including Illinois (Letter of plaintiff's President dated May 13, 1964, pp. 37-40), on April 29, 1964. Plaintiff's President testified that "negotiations between the Michaels and Hulburt of Pennsylvania commenced officially with David Michael's letter written to me on April

29, 1964" (p. 24). Being under no legal disability to do so, John R. Michael asked his counsel to ascertain the availability of the defendant's name in Illinois and other states, and reserve it if possible. This his counsel did (Plaintiff's Exhibit No. 3, C.T. Corporation System letter dated April 30, 1964, p. 35). After John R. Michael was completely released of all duties and obligations to plaintiff and after the Consulting Agreement had been terminated by the Settlement Contract dated May 7, 1964 (Paragraphs 8 and 3 of Plaintiff's Exhibit No. 2, p. 33 and p. 32), his counsel was advised by letter of the C. T. Corporation System dated May 8, 1964 (Plaintiff's Exhibit No. 4, p. 36) that the name had been reserved in Illinois and in other states. John R. Michael had no knowledge until May 8, 1964 and thereafter that he had reserved the defendant's name which was after he was released from all duties owed plaintiff and his Consulting Agreement had been terminated (plaintiff's witness, Robert E. Boyd, p. 25).

John R. Michael had the constitutionally protected right to incorporate any name available. This name was available in Illinois. He had legally reserved it. He caused the incorporation thereof. Mr. Michael was thereafter at liberty to conduct business thereunder in any fair competitive activity. He was free to use the corporation to sell oil west of the Mississippi where plaintiff was not doing business. He was free to sell rust preventative oil anywhere in the United States as an area of productivity where plaintiff never operated. He was free to do any number of things with his corporation, since, upon receiving his general release from plaintiff, it was agreed that he could compete with plaintiff in any lawful man-

ner in his sole discretion deemed appropriate (Paragraph 5 of Settlement Contract dated May 7, 1964, p. 32).

But the trial court and the Court of Appeals impugn his conduct of incorporating defendant without regard to his consulting contract which governs the conduct of the parties.

The Courts below should not be allowed to impose their standards of conduct on the parties with offensive labels of intentional, vexatious and fraudulent, where the parties, themselves, have agreed by contract what conduct is permissible and not permissible. John R. Michael, having agreed that he would not "become a holder of 25% or more interest in . . . any other organization which is in any way detrimental to the company. . . ." he was at liberty to reserve defendant's name. Reserving a name is not an organization but merely the first step in creating an organization. Reserving the name was not proscribed by his contract. Nor was the reservation of the name proscribed by Section 2 of Article 4 of the Federal Constitution. The reservation procedures are prescribed by the Illinois law with which compliance has been had.

II. The Seventh Circuit Persists in Applying the Law Prior to This Court's Decision in Woods v. Interstate Realty Co.

In *Woods v. Interstate Realty Co.*, 337 U.S. 535, 538, 93 L. Ed. 1524, 1527, 69 Sup. Ct. 1235, 1237, this Court held that where a party is barred from suing in the state court

he is likewise barred in the federal court. There this Court said where:

> ". . . one is barred from recovery in the state court, he should likewise be barred in the federal court. The contrary result would create discrimination against citizens of the state in favor of those authorized to invoke the diversity jurisdiction of the federal courts. It was that element of discrimination that Erie R. Co. v. Thompkins was designed to eliminate."

Illinois has barred the maintenance of an action in any court of Illinois in law or in equity by a foreign corporation transacting business in Illinois without a Certificate of Authority. Ill. Rev. Stat. ch. 32, Section 157.125 (1965), provides in part:

> "No foreign corporation transacting business in this state without a Certificate of Authority shall be permitted to maintain an action at law or in equity in any court of this State, until such corporation shall have obtained a Certificate of Authority. . . ."

The Illinois Legislature has made its public policy clear. There can be no mistaking the language. The trial court has found as a fact that plaintiff has been doing business in Illinois for many years (Findings of Fact Nos. 6 and 7, p. 44) without a Certificate of Authority (Findings of Fact No. 32, p. 46). Thus under the clear meaning of the statute plaintiff is barred from maintaining this action in any court in Illinois.

The Court of Appeals for the Seventh Circuit has heretofore recognized the existence of this bar in Illinois. In *General Industries Co. v. 20 Wacker Drive Bldg. Corpo-*

ration, 156 F. 2d 474, 476 (7th Cir. 1946), cert. denied, 329 U.S. 792 (1946), such Court said:

> ". . . the State of Illinois may deny to a foreign corporation the right to sue in its courts to enjoin a domestic corporation from using a name similar to that of the foreign corporation where such foreign corporation has not complied with the Statute of Illinois which permits such corporation to do business in the State."

In support of the foregoing, the Seventh Circuit cited as authority for this proposition the applicable law of Illinois and followed it which is the present law of Illinois and has not been overruled, namely *The Hazelton Boiler Company v. The Hazelton Tripod Boiler Company,* 142 Ill. 494, 30 N.E. 339 (1892).

Now, in its opinion filed in this case, the Seventh Circuit says the Illinois Supreme Court asserted in *Hazelton* the legally unsound proposition that a foreign corporation could not contest the right of a domestic corporation to the corporate name given by the state (page 26 of Appendix A, hereto).

Whether such proposition is legally unsound or not, it is the law of Illinois. This Court has ruled in such cases that the Seventh Circuit is obliged to follow the State law—not change the State law if the Circuit Court does not agree with it.

The *General Industries* case (1946) was decided before this Court's decision in *Woods* (1949). In the former, the Seventh Circuit held that while the plaintiff in *General Industries* would be barred in the Illinois State Courts it could still sue in the federal courts and went on to de-

cide the case. The Seventh Circuit has now recognized that such suit is no longer permissible in the federal courts where it is barred in the State courts. (Footnote 5, page 27 of Appendix A, hereto).

Even with that recognition it has permitted the maintenance of this action on the ground that courts ouside Illinois and the federal courts sitting in Illinois have rejected or discredited *Hazelton.* But this common law concept has now been codified by the Section 157.125 of the Illinois Business Corporation Act, supra, by providing that a foreign corporation not only has no substantive right to contest the right to the name of a domestic corporation, but is also denied the procedural right to contest the name by forbidding the maintenance of an action at law or in equity where the foreign corporation has illegally been doing business without a Certificate of Authority.

The Seventh Circuit has held, however, that the language of Section 125 of the Illinois Business Corporation Act contemplates that the foreign corporation will be able to correct its previous noncompliance with Illinois law by qualifying with the Secretary of State and cited as authority *Emcee Corporation v. H. Kay George,* 293 Ill. App. 240, 12 N.E. 2d 333 (1937). In 6 A.L.R. 3d 335, it was pointed out that what the Court there said in *Emcee,* it said, *as a dictum,* that a suit instituted by a foreign corporation which had not complied with the statute ought not to be dismissed, because, if it should thereafter obtain the certificate of authority it could then proceed with the suit. But the trial judge here found as a fact that plaintiff could not obtain a certificate of authority by reason

of the existence of defendant (Finding of Fact No. 32, p. 46).

Even more important is *J. Walter Thompson Company v. H. L. Whitehed,* 185 Ill. 454, 465, 56 N.E. 1106 (1900), cited in 6 A.L.R. 3d 335, involving an earlier but similar statute, where a foreign corporation, claiming by a levy of attachment, was held to have no superior right over a debtor's assignee because of noncompliance with the statute at the time of levy. The corporation's subsequent compliance with the statute was considered of no significance, on the ground that its rights were to be determined, at the latest, as of the date of the levy of the writ of attachment.

The Seventh Circuit here has held that plaintiff was prevented from obtaining a certificate of authority because of the unlawful act of incorporating the defendant. Terming the act "unlawful" is an unwarranted conclusion and manifests a complete misunderstanding of the facts. The actual facts are defendant was not incorporated until May 21, 1964, after John R. Michael had a complete general release from plaintiff, his consulting agreement with plaintiff had been terminated and he had the covenant from plaintiff that he could compete in any lawful manner in his sole discretion deemed appropriate by Settlement Contract dated May 7, 1964 (Paragraphs 3, 5 and 8 of plaintiff's Exhibit No. 2, pp. 32 and 33).

How can the act of incorporating defendant be unlawful when defendant's incorporation has complied with the law of Illinois and the party who caused the incorporation was under no duty whatsoever to plaintiff since he had no agreement with plaintiff and had been released from all duties or obligations to plaintiff?

John R. Michael had been neither an officer nor director of plaintiff since 1959 (p. 24). From January 1, 1962 to the date of the Settlement Contract, May 7, 1964, he was a minority stockholder in plaintiff and was a party to a Consulting Agreement as an independent agent in which he agreed to perform only advisory and consultative services on a part-time basis (Finding of Fact No. 11, p. 44, Consulting Agreement, p. 41).

The Seventh Circuit was incorrect when it stated that John R. Michael reserved the name while still employed by plaintiff—he was not employed, but a party to an agreement which contractually gave him the right to reserve the name because the parties specifically agreed to what Mr. Michael could not do and reserving a name was not one of them.

The Seventh Circuit, although it had earlier recognized the bar to a suit such as this imposed by the substantive common law of Illinois in *General Industries Co. v. 20 Wacker Drive Bldg. Corporation,* 156 F. 2d 474 (7th Cir. 1946), cert. denied, 329 U.S. 792 (1946), held here that "We think that the Illinois courts in keeping with their consistent adherence to basic equitable principles even in the absence of a specifically authorized remedy . . . would not permit the defendant to raise the statute as a bar to the plaintiff's action. . . ." Such statement overlooks the legal principle that no person can be estopped into a position contrary to law. This Court said in *Scott Paper Co. v. Marcalus Manufacturing Co., Inc.,* 326 U.S. 249, 257, 90 L. Ed. 47, 66 Sup. Ct. 101, 105:

"For no more than private contract can estoppel be the means of successfully avoiding the require-

ments of legislation enacted for the protection of a public interest."

Even more emphatic was the Court which said "no person can be estopped into a position contrary to law. Public policy demands that the mandate of the law should override any doctrine of estoppel. And no amount of misrepresentation can prevent a party, whether citizen or Government, from asserting as illegal that which the law declares to be such". *Smale & Robinson, Inc. v. United States,* 123 F. Supp. 457, 464 (S.D. Cal. 1954); *United States v. Certain Parcels of Land,* 131 F. Supp. 65, 73 (S.D. Cal. 1955).

Certainly this defendant cannot be barred from raising the statute. It has done nothing. Adherence to basic equitable principles is what permits defendant to raise the statute as a bar to the plaintiff's action.

The legislative policy of Illinois is unmistakable. No corporation illegally doing business in Illinois is permitted to maintain an action at law or in equity. All of the cases cited by the Seventh Circuit to support its conclusion that plaintiff is not barred by Section 125 of the Illinois Business Corporation Act are pre *Woods v. Interstate Realty Co.,* 337 U.S. 535, 93 L. Ed. 1524, 69 Sup. Ct. 1235 (1949), have thereby been *overruled* and stand for nothing. Not only is there the absence of a specifically authorized remedy for plaintiff in Illinois, there is statutorily prescribed bar to the plaintiff's action settling once and for all the public policy of Illinois.

The Illinois statute, therefore, has barred plaintiff from recovery in the state court and it is likewise barred from recovery in the federal courts. The U. S. Supreme

Court in *Woods* effectively affirmed the Illinois law which precludes a non-qualified corporation from suing and has made it mandatory for the Federal Courts to follow it.

CONCLUSION

The Seventh Circuit was in error when it held that it was an unlawful act to incorporate defendant. Compliance with the incorporation acts of Illinois has been had and is all that was necessary. Defendant may constitutionally exist in Illinois even though there is a Pennsylvania corporation by the same name.

The Illinois public policy, as enunciated by its common law and statute, has mandated that no foreign corporation may contest the right of a domestic corporation to its name and where the foreign corporation is doing business in Illinois without a certificate of authority may not even maintain an action in law or equity in the Illinois Courts, including the Federal Courts sitting in Illinois.

Respectfully submitted,
J. Willison Smith, Jr.,
Bayard M. Graf,
Counsel for Petitioner.

APPENDIX A

IN THE UNITED STATES COURT OF APPEALS
For the Seventh Circuit

No. 15590 September Term and Sessions, 1966

Hulburt Oil & Grease Company, a Pennsylvania Corporation,

Plaintiff-Appellee

v.

Hulburt Oil & Grease Company, an Illinois Corporation,

Defendant-Appellant

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division

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December 19, 1966

Before Knoch, Swygert, and Fairchild, Circuit Judges.

Swygert, Circuit Judge. The Hulburt Oil and Grease Company, a Pennsylvania corporation, brought this diversity action for unfair competition against the defendant, an Illinois corporation, to determine the defendant's right to use the name "Hulburt Oil and Grease Company"

in Illinois. The defendant appeals from a judgment of the district court directing the defendant to change its corporate name, permanently enjoining the defendant from using a name so similar to the plaintiff's name that confusion is likely to result, and awarding compensatory damages to the plaintiff in the amount of $35,562.91 and punitive damages of one dollar.[1] The principal question is whether the plaintiff is barred from maintaining this action by Ill. Rev. Stat. ch. 32, §157.125 (1965) as a foreign corporation transacting business in Illinois without a certificate of authority.

The facts found by the district court, sitting without a jury, are attacked generally by the defendant as unsupported conclusions and are challenged specifically in a few instances as contrary to the evidence. Our review of the record exposes none of these findings as clearly erroneous and it will not be necessary to discuss any of them extensively.

The plaintiff corporation was organized in Pennsylvania in 1910 as "C. Hulburt & Company," succeeding to a business which dates back to 1861. It has been engaged in the manufacture and sale of lubricating oils and similar products under the name "Hulburt Oil and Grease Company" since 1918. During this time the plaintiff has expended substantial sums of money promoting its corporate and trade name in several states including Illinois, and its name has become well known and of considerable value.

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[1] In an earlier appeal we held that the issuance of a temporary injunction restraining the defendant from using the plaintiff's name pending final determination of the matter was within the discretion of the district court. *Hulburt Oil & Grease Co. v. Hulburt Oil & Grease Co.*, 346 F. 2d 260 (7th Cir.), cert. denied, 382 U.S. 835 (1965).

The plaintiff has been doing business in Illinois for many years, although until just prior to this lawsuit it did not attempt to qualify under the Illinois Business Corporation Act as a foreign corporation authorized to transact business within the state. In 1963, the plaintiff acquired and began operating a plant in Benton, Illinois.

John R. Michael became a minority stockholder and the general manager of the plaintiff in 1920. In his capacity as general manager, a director, and the holder of a variety of corporate offices, he effectively ran the company for many years. In 1955 his son David succeeded him as general manager, but John R. Michael remained in the company's employment by virtue of certain consulting agreements and retained substantial influence in its everyday affairs.

On several occasions during his tenure with the plaintiff, including at least one occasion while he was the plaintiff's general manager and again in 1963 when the plaintiff purchased its Benton plant, John R. Michael was informed of the necessity of qualifying the corporation to do business in Illinois. Although his position was such that it became his duty to take the necessary action to protect the plaintiff's interests, Michael did nothing.

Early in 1964, for reasons which are not relevant here, a general misunderstanding arose between John and David Michael and the majority stockholders of the plaintiff, Anna and W. Stuart Emmons. On April 9, 1964, following heated negotiations, the Michaels,[2] the Emmonses, and the plaintiff entered into a settlement agreement. The

[2] John R. Michael and his sons David and J. Graham, all of whom owned stock in the plaintiff.

agreement envisioned the sale of the Michaels' stock to the plaintiff, and the further execution of a settlement contract providing for the termination of the Michaels' employment with the plaintiff and a general release of all claims among the parties. The sale of stock was consummated and the settlement contract executed on May 7, 1964. The settlement contract, among other things, terminated the most recent consulting agreement under which John R. Michael had been employed, contained the general release called for in the settlement agreement, and provided that the Michaels were free to compete with the Emmonses and the plaintiff "in any lawful manner in their sole discretion deemed appropriate."

In the meantime, during the last week of April 1964 while still in the plaintiff's employ, John R. Michael, prompted his attorney to seek the assistance of the C-T Corporation System in "determining" whether the name "Hulburt Oil and Grease Company" was available for incorporation in a number of states, including Illinois. On May 4, 1964, the name was reserved in Illinois. Subsequently, on May 21, 1964, two weeks after the execution of the settlement contract, John R. Michael caused the incorporation of the defendant and became its sole shareholder. His actions in reserving the defendant's name and incorporating the defendant were taken clandestinely and without the knowledge of the plaintiff. The district court found that he acted maliciously and intentionally to prevent the plaintiff from qualifying to do business as a foreign corporation in Illinois and to take the plaintiff's name for himself.

In June 1964 the officers of the plaintiff learned that the plaintiff was not qualified in Illinois and applied to

the Secretary of State for a certificate of authority. The application was rejected solely by reason of the existence of the defendant. This suit followed.

The defendant's principal contention is that the law of Illinois prohibits the plaintiff from maintaining this action. The plaintiff has admittedly been doing business in Illinois for many years without a certificate of authority and has been unable to obtain one because of the incorporation of the defendant.[3] Ill. Rev. Stat. ch. 32, §157.125 (1965) provides in part:

> No foreign corporation transacting business in this state without a certificate of authority shall be permitted to maintain an action at law or in equity in any court of this State, until such corporation shall have obtained a certificate of authority. . . .

Although the Illinois courts have enforced the predecessor of this provision in other contexts, e.g., *Indiana Harbor Belt R.R. v. Green,* 289 Ill. 81, 124 N.E. 298 (1919); *J. Walter Thompson Co. v. Whitehed,* 185 Ill. 454, 56 N.E. 1106 (1900), no Illinois decisions appear to have considered the statute in relation to the question presented by the facts in this case. The defendant argues that the statute is conclusive and that the unavailability of any remedy to the plaintiff is the result of the plaintiff's illegal activity in Illinois. He relies upon *Hazelton Boiler Co. v. Hazelton Tripod Boiler Co.,* 142 Ill. 494, 30 N.E. 339 (1892), and a statement by this court in *General Industries Co. v. 20 Wacker Drive Bldg. Corp.,* 156 F. 2d 474 (7th Cir.), cert. denied, 329 U.S. 792 (1946), to support his view, even though neither of these cases was concerned with the statute quoted.

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[3] Ill. Rev. Stat. ch. 32, §157.9 (1965).

The defendant's reliance upon *Hazelton* is misplaced. In that case the Illinois Supreme Court, without referring to any statute, asserted the legally unsound proposition that a foreign corporation (present in Illinois "only by a species of legal sufferance") could not contest the right of a domestic corporation to the corporate name given to the domestic corporation by the state, because in "bestowing" a name upon a domestic corporation Illinois was exercising its "sovereignty" and stating its "public policy." *Hazelton Boiler Co. v. Hazelton Tripod Boiler Co.*, 142 Ill. at 505. Insofar as *Hazelton* stands for this proposition, it has been uniformly rejected. E.g., *Radio Shack Corp. v. Radio Shack, Inc.*, 180 F. 2d 200 (7th Cir. 1950); *Peck Bros. v. Peck Bros.*, 113 Fed. 291 (7th Cir.), cert. denied, 187 U.S. 643 (1902); *Metropolitan Opera Ass'n v. Metropolitan Opera Ass'n*, 81 F. Supp. 127 (N.D. Ill. 1948); *United States Light & Heating Co. v. United States Light & Heating Co.*, 181 Fed. 182 (S.D. N.Y. 1910).

It can no longer be argued that in allowing incorporation under its laws, a state thereby intends to license the commission of what would otherwise be a tortious act. In other words, a state does not pass upon the legality of a corporate name by merely permitting incorporation under that name.[4] The "sovereignty" and "public policy" rationale of *Hazelton* was implicitly rejected in *Inter-*

[4] In *Peck Bros. v. Peck Bros.*, 113 Fed. 291, 300 (7th Cir.), cert. denied, 187 U.S. 643 (1902), this court stated:

> The act of sovereignty allowing incorporation is permissive, not mandatory. It sanctions the act of incorporation under the name and for the business proposed, if that name and that business is otherwise lawful. The sovereign by the act of incorporation adjudges neither the legality of the business proposed, nor the name assumed. That is matter for judicial determination by a court having jurisdiction of the

national Comm. of YWCA v. YWCA, 194 Ill. 194, 62 N.E. 551 (1901), when the Illinois Supreme Court approved the issuance of an injunction restraining a domestic corporation from using the name under which it was incorporated.

While Illinois manifestly has not determined the legality of the defendant's use of the name "Hulburt Oil and Grease Company" by permitting the defendant to incorporate, this is not to say that Illinois may not close its courts to suits by foreign corporations which have been doing business in Illinois contrary to state law. This court recognized that Illinois has the power to do so in the *General Industries* case when we stated:

> [T]he State of Illinois may deny to a foreign corporation the right to sue in its courts to enjoin a domestic corporation from using a name similar to that of the foreign corporation where such foreign corporation has not complied with the statute of Illinois which permits such corporation to do business in the State. *General Industries v. 20 Wacker Drive Bldg. Corp.*, supra at 476.

Unfortunately, we there relied upon *Hazelton* in assuming that Illinois has exercised the power of exclusion ascribed to it.[5] But since *Hazelton* has been discredited as author-

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subject when the legality of the business or of the name is called in question.

[5] The foreign corporation in *General Industries Co. v. 20 Wacker Drive Bldg. Corp.*, 156 F. 2d 474 (7th Cir.), cert. denied, 329 U.S. 792 (1946), was allowed to sue the domestic corporation in a federal court even though we assumed that the state courts would have been inaccessible to it. This dichotomy, of course, is no longer permissible. If Illinois has chosen to exclude entirely

ity for this assumption, we must consider whether the Illinois courts would presently entertain this suit.

Section 125 of the Illinois Business Corporation Act provides that a foreign corporation illegally doing business within the state may not avail itself of the Illinois courts "until such corporation shall have obtained a certificate of authority." This language contemplates that the foreign corporation will be able to correct its previous noncompliance with Illinois law by qualifying with the Secretary of State. *Emcee Corp. v. George,* 293 Ill. App. 240, 12 N.E. 2d 333 (1937). In this case such action has been rendered impossible by the unlawful act of incorporating the defendant. In addition, John R. Michael, who reserved the name "Hulburt Oil & Grease Company" in Illinois for the defendant while still employed by the plaintiff and who later caused the defendant's incorporation and became its sole shareholder, was the same person who was charged with the duty of qualifying the plaintiff in Illinois during his employment with the plaintiff. To hold that the defendant may nevertheless invoke the statute to deny the plaintiff any remedy would be to permit the consummation of a fraud and a breach of trust of a sort which the statute was surely not designed to countenance. We think that the Illinois courts, in keeping with their consistent adherence to basic equitable principles even in the absence of a specifically authorized remedy, *Skelly Oil Co. v. Universal Oil Products Co.,* 338 Ill. App. 79, 86 N.E. 2d 875 (1949), would not permit the defendant to

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from its courts foreign corporations illegally doing business there, we are similarly bound to exclude them from the federal courts in diversity cases. *Woods v. Interstate Realty Co.,* 337 U.S. 535 (1949).

raise the statute as a bar to the plaintiff's action. *Emcee Corp. v. George,* supra.

Our conclusion is supported by several decisions of other courts in closely analogous situations. *Scalise v. National Utility Service, Inc.,* 120 F. 2d 938 (5th Cir. 1941); *General Film Co. v. General Film Co.,* 237 Fed. 64 (8th Cir. 1916); *Western Auto Supply Co. v. Western Auto Supply Co.,* 13 F. Supp. 525 (D. N.H. 1936); *Red Seal Refining Co. v. Red Seal Refining Corp.,* 241 P. 762 (Okla. 1925). In each of these cases, a foreign corporation was permitted to challenge the name of the domestic corporation despite having done business in the state without being properly qualified.

In *General Film Co. v. General Film Co.,* supra, for example, the defendant was a Maine corporation which had been engaged in the business of producing and selling motion picture films in Missouri without procuring a license required by Missouri law.[6] Upon discovering this fact, several citizens of Missouri, who were engaged in a similar business, incorporated the plaintiff in Missouri under the same name and brought suit to enjoin the defendant from using the plaintiff's name and from doing business within the state. The defendant filed a counterclaim asserting the fradulent creation of the plaintiff and requesting an injunction against the use of its name by the plaintiff. In affirming a decree granting the relief requested by the foreign corporation, the Eighth Circuit refused to permit the domestic corporation to defend itself

[6] A Missouri statute also provided that such a foreign corporation could not maintain a suit on any contract entered in the state during the period of noncompliance with Missouri law.

on the ground that the defendant was doing business illegally in Missouri. The court stated:

> [Missouri] alone could complain of the fact that the General Film Company of Maine was doing business in the state without having complied with the statutes in regard to foreign corporations. The plaintiff cannot clothe itself in the panoply of the state as a shield for the fraud which it is seeking to accomplish.
>
> • • • • • • • •
>
> A corporation chooses its own name. It does it with a view to the business in which it is presently to engage. It is therefore charged with the duty of not selecting a name for fraudulent purposes. It is the duty of courts of equity to enforce the observance of this rule. 237 Fed. at 66.

The facts in *Scalise v. National Utility Service, Inc.*, supra, are also similar to those in the present case. There the plaintiff was a New York corporation which was doing business in Florida without the required permit. The plaintiff began an action in the state courts on business transactions it had entered with certain defendants, but the defendants successfully invoked a Florida statute which provided for the abatement of any action brought by a nonqualified foreign corporation pending its qualification. Before the plaintiff was able to qualify, however, the defendants formed a Florida corporation of the same name to prevent the plaintiff from obtaining a permit. The plaintiff sought an injunction in the federal district court to restrain the defendants and their corporation from using the plaintiff's name. As one of their defenses, the defendants contended that the plaintiff's name was avail-

able in Florida for use by anyone because of the plaintiff's own illegal action in doing business there without a permit. The court rejected this defense and granted the injunction sought. The Fifth Circuit, in affirming, stated:

> [I]t is a wrongful act to organize a domestic corporation by the same name as that already known to be used in the state by a foreign corporation, although the foreign corporation is not domesticated, but is doing business in the state without a permit, and an injunction will issue, not merely after the charter has been obtained to prevent the use of the name in unfair competition, but to restrain the procuring or issuing of the charter under the proposed name or if the charter has been issued, to restrain the use of the name. 120 F. 2d at 940.

We think that the broad principle underlying the decisions in the *Scalise General Film,* and other cases cited herein—the prevention of fraud—would find favor with the courts of Illinois in this case, and we therefore hold that the district court properly determined that the plaintiff's action is not barred by section 125 of the Illinois Business Corporation Act.

The defendant contends that since part of the relief requested by the plaintiff was a mandatory injunction requiring the defendant to change its name, the officers, directors, and the shareholder of the defendant and the Illinois Secretary of State were indispensable parties to the lawsuit. This contention is without merit. E.g., *Mansfield Hardwood Lumber Co. v. Johnson,* 263 F. 2d 748 (5th Cir.), cert. denied, 361 U.S. 885 (1959); *Hertz v. Record Publishing Co.,* 219 F. 2d 397 (3d Cir,), cert. denied, 349 U.S. 912 (1955).

The defendant also contends that the district court erred in awarding damages measured by the attorneys' fees and costs incurred by the plaintiff in prosecuting this case. The defendant says that since it transacted no business in Illinois it was not guilty of unfair competition and any award of damages is unjustified. We do not agree. The appropriation of the plaintiff's name by the incorporation of the defendant under circumstances likely to cause confusion in the trade and to the public was itself sufficient to constitute unfair competition. *Independent Nail & Packing Co. v. Stronghold Screw Products, Inc.*, 205 F. 2d 921, 926 (7th Cir.), cert. denied, 346 U.S. 886 (1953), and, because the action taken was intentional, vexatious, and fraudulent the award of the expenses of litigation was proper. *Wolfe v. National Lead Co.*, 272 F. 2d 867, 873 (9th Cir. 1959), cert. denied, 362 U.S. 950 (1960); *National Van Lines v. Dean*, 237 F. 2d 688, 694 (9th Cir. 1956); *Aladdin Mfg. Co. v. Mantle Lamp Co.*, 116 F. 2d 708, 717 (7th Cir. 1941).

The judgment is affirmed.

A true Copy:

Teste:

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Clerk of the United States Court of Appeals for the Seventh Circuit

APPENDIX B

UNITED STATES COURT OF APPEALS
For the Seventh Circuit
Chicago, Illinois 60604

Monday, December 19, 1966

Before

Hon. Win G. Knoch, Circuit Judge.

Hon. Luther M. Swygert, Circuit Judge.

Hon. Thomas E. Fairchild, Circuit Judge.

No. 15590

Hulburt Oil & Grease Company, a Pennsylvania corporation,

Plaintiff-Appellee

vs.

Hulburt Oil & Grease Company, an Illinois corporation,

Defendant-Appellant

Appeal from the United States District Court for the Northern District of Illinois, Eastern Division

Appendix B

This cause came on to be heard on the transcript of the record from the United States District Court for the Northern District of Illinois, Eastern Division, and was argued by counsel.

On consideration whereof, it is ordered and adjudged by this court that the judgment of the said District Court in this cause appealed from be, and the same is hereby, affirmed, with costs, and interest, in accordance with the opinion of this Court filed this day.

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IN THE

Supreme Court of the United States

October Term, 1966.

No. 1148.

HULBURT OIL AND GREASE COMPANY,
an Illinois Corporation,
Petitioner,

v.

HULBURT OIL AND GREASE COMPANY,
a Pennsylvania Corporation,
Respondent.

On Petition for a Writ of Certiorari to the United States Court of Appeals for the Seventh Circuit.

BRIEF FOR THE RESPONDENT IN OPPOSITION.

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IN THE

Supreme Court of the United States

OCTOBER TERM, 1966

No. 1148

HULBURT OIL AND GREASE COMPANY,
AN ILLINOIS CORPORATION,

Petitioner,

v.

HULBURT OIL AND GREASE COMPANY,
A PENNSYLVANIA CORPORATION,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE SEVENTH CIRCUIT

BRIEF FOR THE RESPONDENT IN OPPOSITION.

QUESTION PRESENTED FOR REVIEW.

The issues as framed by Petitioner assume that the present suit would not be entertained in the Courts of Illinois; that the maintenance of this action is contrary to the public policy of the State of Illinois and in direct contravention to its statutory edict. The assumption itself glibly resolves the true question presented. That question is:

Does the bar of Section 157.125 of the Illinois Business Corporation Act apply to prevent a foreign non-qualified corporation from maintaining an action in equity to recover its corporate name and good will, wrongfully appropriated by a domestic Illinois corporation recently organized by the foreign corporation's former officer, director, shareholder and general manager, for the express purposes of making it impossible for such foreign corporation to so qualify and of appropriating the foreign corporation's business, name and goodwill in the State of Illinois?

STATEMENT OF THE CASE.

In its Statement, Petitioner omits the facts upon which the District Court and the Court of Appeals based their decisions. This case does not involve the simple legal question of whether a corporation barred from the Illinois Courts under the Business Corporation Act will nevertheless be permitted to maintain an action for unfair competition in the Federal Courts sitting in Illinois against a domestic Illinois corporation with an identical name. The question is whether under the peculiar facts and circumstances presented, Petitioner will be permitted to avail itself of the benefits of the statute. Thus the relationships between the parties and the purposes for which Petitioner was formed are the heart of the issue. These facts are summarized below.

Plaintiff is a corporation organized in the Commonwealth of Pennsylvania in 1910 with the purpose of "the manufacture and sale of lubricating and other oils, and lubrication devices and materials" (Finding of Fact No. 5; P. 20)[1] and succeeding to the business theretofore conducted by the Hulburt family from approximately 1861 (P. 20). From 1910 to 1918 it transacted business under the name "C. Hulburt & Co." (P. 20) and has been transacting business under the corporate name of "Hulburt Oil and Grease Company" continuously from 1918 to the present time (Finding of Fact No. 3; P. 20). Plaintiff's principal office is in Philadelphia, Pennsylvania (Finding of Fact No. 1; D. 1, 11; P. 21) and it maintains an office and owns and operates a plant in Benton, Illinois, which facilities were acquired by plaintiff on December 31, 1963 (Finding of Fact No. 6; P. 21).

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1. In this brief we shall refer to defendant's appendix as "(D. ...)," and to plaintiff's appendix as "(P. ...)." Where "Findings of Fact" are referred to, followed by an Appendix page reference, the latter refers to evidence upon which such "Finding" was based in whole or in part.

Over the years, plaintiff has expended substantial sums promoting its corporate and trade name in Illinois and has transacted substantial business with persons situate in the State of Illinois (Finding of Fact No. 7; P. 21). The name "Hulburt" and the corporate title "Hulburt Oil and Grease Company" are well known in the State of Illinois and have considerable value (Finding of Fact No. 8; P. 46-47).

On May 4, 1964, John R. Michael caused the name "Hulburt Oil and Grease Company" to be reserved in the State of Illinois and several other states (Finding of Fact No. 10; P. 32, 49). Mr. Michael, a substantial stockholder in plaintiff, had been employed by plaintiff, since 1920. Holding a variety of corporate titles and serving as General Manager, he effectively ran the company until March 31, 1964 (Finding of Fact No. 14; P. 21-22; 30). On April 9, 1964, plaintiff entered into an agreement with John R. Michael and his sons, David H. Michael and J. Graham Michael to purchase all of its stock owned by them for over $149,000.00 (D. 27). This sale was consummated on May 7, 1964, at which time John R. Michael's association with and employment by plaintiff completely terminated (D. 31). On May 4, 1964 when he reserved plaintiff's corporate name in Illinois, he was in plaintiff's employ pursuant to a contract dated January 1, 1962 (Finding of Fact No. 11; D. 41).

On May 21, 1964, John R. Michael caused defendant, an Illinois Corporation with its principal office in Chicago (Finding of Fact No. 2) to be organized under the name "Hulburt Oil and Grease Company" (Finding of Fact No. 12; P. 43-47). The organization of defendant was accomplished without the knowledge or consent of plaintiff under a veil of secrecy maintained by John R. Michael (Finding of Fact No. 20; P. 18-19, 44-45). It was accomplished two weeks after John R. Michael and his sons had sold their stock in plaintiff to plaintiff for $149,581.00 and had terminated their relationships with plaintiff (Finding of Fact No. 13; D. 31, P. 52).

John R. Michael knew that plaintiff was required to be licensed to do business in Illinois and was the person in plaintiff's organization with the duty of protecting plaintiff's business and good will including its name (Finding of Fact No. 22; P. 10-11, 23-28, 39-40). On several occasions while in plaintiff's employ he had been advised of the necessity of qualification but failed to cause the corporation to take the necessary steps (Finding of Fact No. 15; P. 23-28). Despite that knowledge, John R. Michael organized defendant as a means of holding the name "Hulburt Oil and Grease Company" for himself thus depriving plaintiff of its right to become qualified or continue in the transaction of its business in Illinois and in order to take from plaintiff and acquire for himself the right to own, use and trade under the name "Hulburt Oil and Grease Company" in the State of Illinois (Findings of Fact Nos. 16, 18 and 24; P. 32-33, 46-47).

Upon learning that it was not registered to do business in the State of Illinois, plaintiff made proper application to the Secretary of State of Illinois and took all steps within its power to comply with § 157.125 of the Illinois Business Corporation Law. Its application was refused solely by reason of the existence of defendant (Findings of Fact Nos. 25, 32 and 33, P. 19-20). By incorporating in Illinois in plaintiff's name, defendant put itself in a position to secure the benefits of and cause injury to plaintiff's business and jeopardized plaintiff's title to its real estate and other property in Benton, Illinois (Findings of Fact Nos. 26 and 27; P. 32-33, 46-47). In addition, the use of plaintiff's exact corporate title by defendant would be likely to cause confusion in the trade as to the source of products and would be likely to lead the public to believe that the defendant is in some way connected with the plaintiff (Finding of Fact No. 28; P. 46).

The taking of plaintiff's corporate and trade name in Illinois by defendant was not unintentional, and was neither accidental nor under a color of right. Defendant and John

R. Michael, its sole shareholder and *alter ego*, were well aware that the Hulburt name belonged to the plaintiff and knew that they had no moral or legal right to it (Findings of Fact Nos. 29, 30 and 31; P. 33, 46-47). In spite of this, defendant was organized with the conscious, malicious and fraudulent purpose of appropriating plaintiff's name and good will in the State of Illinois, and of interfering with, damaging or destroying plaintiff's business in the State of Illinois without any justification or excuse (Findings of Fact Nos. 29, 31 and 35; P. 38-39, 46).

During the course of this litigation defendant conducted itself in a vexatious and oppressive fashion, and plaintiff necessarily incurred $33,562.91 in extraordinary legal expenses for counsel fees and costs of litigation (Findings of Fact Nos. 34, 36).

This action was commenced on August 3, 1964 and, after hearing, a Preliminary Injunction issued on September 9, 1964. Upon interlocutory appeal by defendant, the entry of the Preliminary Injunction was sustained by the Court of Appeals on June 3, 1965 (No. 14916) and a Petition for Writ of Certiorari was denied by the United States Supreme Court (No. 333, October Term, 1965). After full trial before Judge Perry on December 27-30, 1965, the injunction was made final and damages were awarded plaintiff measured by legal fees and expenses necessarily incurred in the litigation. A further appeal to the Court of Appeals followed which, after argument, resulted in the affirmance of the Judgment of the District Court. It is of that decision that review is now sought.

The decisions of the Courts below rest upon their determination that the Courts of Illinois would entertain this suit were the suit brought before them rather than before a Federal District Court sitting in Illinois. The Courts below did not disapprove of the law of Illinois and assert it to be "legally unsound", but interpreted and applied the law of Illinois in the manner in which the Courts of Illinois would apply it if met with the situation presented in this

case. At the conclusion of the trial in the District Court Judge Perry stated (P. 12): "It has made every attempt to conform to the Law of Illinois, and having made such attempt, I believe that the State Courts would entertain this suit, having taken every action to do so in being deprived by the act and actions of the defendant." This conclusion was formally established in the Findings and Conclusions of the District Court (Findings of Fact No. 32-33; Conclusions of Law No. 3 and 4) and in the Opinion of the Court of Appeals (pp. 27-31, Appendix A to Petition).

ARGUMENT.

I.

The Court of Appeals Has Not Decided an Important State Question in a Way in Conflict With Applicable State Law.

The Court of Appeals correctly applied the law of Illinois in determining that plaintiff is not barred from maintaining this action.[2] Although there is no Illinois decision squarely in point, the equitable principles enunciated and relied upon by the Illinois courts require that result. Moreover, courts in other states have been confronted with cases involving similar situations, and in concluding that the suits should be permitted to be maintained, have applied those same principles and equitable doctrines which are so firmly rooted in Illinois jurisprudence. Among them *Scalise, et al. v. National Utility Service, Inc.*, 120 Fed. 2d 938 (CCA 5, 1941) and *General Film Co. of Missouri v. General Film Co. of Maine*, 237 Fed. 64 (CCA 8, 1916) are squarely in point with the instant case.

In the *Scalise* case, the plaintiff below, National Utility Service (hereinafter "National") was a corporation organized and existing under the laws of the State of New York which had transacted business for some years in the State of Florida without qualifying as a foreign corporation. In connection with the transaction of such business it had entered into a contract with Scalise. Scalise allegedly breached the contract. Thereupon National instituted an action in the state courts of the State of Florida seeking recovery for breach of contract. It was met with a plea in abatement under the Florida statute that made

2. Plaintiff suggests that this issue may now be moot as it is in fact now properly registered to do business in the State of Illinois (P. 53) and may certainly now maintain this action. *Emcee Corporation v. George*, 293 Ill. App. 240, 12 N. E. 2d 333 (1937); *Bell v. Maryland*, 378 U. S. 226, 12 L. Ed. 2d 822, 84 S. Ct. 1814 (1964); *Mills v. Green*, 159 U. S. 651, 40 L. Ed. 293, 16 S. Ct. 132 (1895).

nonqualification of a foreign corporation a ground for abatement of an action brought by it in the courts of the state, a statute comparable to the Illinois statute here in question. The state court stayed the action to give National an opportunity to qualify as a foreign corporation in the State of Florida. When National undertook to do this, it found that Scalise, during the interim, had caused a Florida Corporation with an identical name to be organized and consequently, National could not qualify. It thereupon instituted its action in the Federal District Court seeking an injunction to restrain and enjoin Scalise from using its name and thereby precluding it from qualifying in the state. It was met with the defense, among others, that its loss of its right to qualify was the result of its wrongful action of having done business in Florida without first qualifying, just as the plaintiff in the case at bar is met with such a defense here. In addition to the injunctive relief sought, it also sought compensatory and punitive damages. The trial court granted the injunctive relief sought and, after a jury trial, an award was made of both compensatory and punitive damages. An appeal was then taken. The Fifth Circuit Court of Appeals affirmed the lower court in all respects. In so holding the Court commented, p. 940:

> "* * * It is the law too, not only in Florida but generally elsewhere that it is a wrongful act to organize a domestic corporation by the same name as that already known to be used in the state by a foreign corporation, *although the foreign corporation is not domesticated, but is doing business, in the state without a permit,* and an injunction will issue, not merely after the charter has been obtained to prevent the use of the name in unfair competition, but to restrain the procuring or issuing of the charter under the proposed name or if the charter has been issued, to restrain the use of the name. 13 Am. Jur., Sec. 135, page 273; *Peck Bros. & Co. v. Peck Bros. Co.,* 7th Cir., 113 F. 291

62 L. R. A. 81; *General Film Co. v. General Film Co.*, 8th Cir., 237 F. 64; *Children's Bootery v. Sutker*, 91 Fla. 60, 107 So. 345, 44 A. L. R. 698. The evidence showing that defendant applied for a corporate charter, not only with full knowledge that plaintiff was doing business in the state under the same name, but for the sole purpose of interfering with and preventing plaintiff from prosecuting its suit under that name against defendant in the state court, it is perfectly clear that the injunction restraining the use by defendant of plaintiff's corporate name was properly ordered." Id. p. 940. (Emphasis supplied.)

The *Scalise* opinion was premised in part upon *The Peck Bros. & Co. v. Peck Bros Co.*, 113 Fed. 291 (7th Cir. 1902). The *Peck* case similarly involved the question whether a corporation lately formed under the laws of Illinois was immune to action by a corporation of the same chartered in Connecticut some years before. The trial court dismissed the plaintiff's action for want of equity. However, the Court of Appeals reversed and remanded with directions to enter a decree for the complaining corporation. It clearly appeared that the organizers of the junior corporation had been engaged in a scheme to appropriate the name of the original corporation with which the organizers of the Illinois corporation had been connected. The observations of this Court in granting injunctive relief for the complaining corporation are, at least in part, persuasive in resolving the issues here. With respect to the protection of the senior corporation's name, this Court said, p. 298:

"It is now so well settled, both by the decisions of the Supreme Court and of this court, that the wrongful use of one's own name to the injury of another, which results in the palming off upon the public his goods as the goods of that other, will be restrained, that it is not needful to review the authorities.

> * * * The name, manifestly, was thus assumed for the purpose of obtaining the good will of the established business of the Connecticut corporation, resulting, failing the acquirement by purchase of the business, good will, and trade-name, in fraud upon the public, and injury to the legitimate proprietors of the business and trade-name."

The Court, in its opinion, also expressed the sound view that mere incorporation under the laws of Illinois does not "magically" protect one from the consequences of his own wrong. In answer to the argument that the sovereignty of the State of Illinois had conferred the name upon the Illinois corporation and therefore was protection for such later corporation (which is also asserted by the defendant in its Petition, pp. 7-10), the Court said, p. 300:

> "* * * There is, however, in the term 'sovereignty', no magic to conjure by. It can confer upon individuals no right to perpetrate wrong. Nor do we think that the sovereignty of the State of Illinois sought to do that. * * * The act of sovereignty allowing incorporation is permissive, not mandatory. It sanctions the act of incorporation under the name and for the business proposed, if that name and that business be otherwise lawful. The sovereign by the act of incorporation adjudges neither the legality of the business proposed, nor of the name assumed. That is matter for judicial determination by a court having jurisdiction of the subject when the legality of the business or of the name is called in question. If one may not use the name imposed upon him in invitum so that it shall work wrong to another, by what token may he become incorporated under a name selected by himself to effect like wrong? And how is the sovereignty of a great state impugned by the denial to incorporators of a right to perpetrate such wrong? Is it possible that a sovereignty of a state can be thus invoked to

perpetrate a fraud? If it may be, then indeed will that sovereignty stand for oppression, and not for justice. Then could one who, in connection with a business to which his name had been attached and had given value to it, having disposed of the right to use that name to another, and so by the law prohibited from using it in connection with a like business under circumstances that would work a fraud, be enabled to effect the fraud by simply becoming incorporated under that name under the sovereignty of the state of Illinois. We cannot bend our judgment to the conclusion that a sovereign state designed thus to confer immunity for wrong. * * *"

The views thus expressed in the *Peck* case are based upon the same general equitable principles and doctrines as the *Scalise* decision and have equal application in the case at bar.

In the *General Film* case, 237 Fed. 64 (8th Cir. 1916), the plaintiff, a corporation of the State of Maine, was transacting business in the State of Missouri without having qualified to do so and in violation of the statute of that state. The incorporators of the defendant, the Missouri corporation, learned of this and thereupon incorporated the Missouri corporation for the same purposes and brought suit to enjoin the Maine corporation from transacting business in the state. The Maine corporation counterclaimed, seeking an injunction against the use of its name by the Missouri corporation. The Missouri corporation asserted the nonqualification of the Maine corporation as a defense although the Maine corporation was being prevented from complying with the qualification law solely by reason of the incorporation of the Missouri corporation under an identical name. In holding this defense to be without merit, the Court stated in part, p. 66:

"* * * A corporation chooses it own name. It does it with a view to the business in which it is presently

to engage. It is therefore charged with the duty of not selecting a name for fraudulent purposes. It is the duty of courts of equity to enforce the observance of this rule. Plaintiff, however, says that it got its name from the state, and may therefore use it, and the defendant cannot now use its name in the state because the Secretary of State will not grant it a license on account of the similarity of its name to the name of the plaintiff. *The complete answer to that contention is that plaintiff selected its name to accomplish a fraudulent purpose. A court of equity cannot be stayed in its duty to protect property rights by means of such a subterfuge as the plaintiff has practiced.* The organization of corporations under modern law is a simple performance. It is controlled wholly by the men who seek that form of business organization. This being the case, the act of taking out a corporate charter, although it invokes the authority of the state, cannot be made use of for purposes of fraud. If it is made use of for that purpose, the fact that the charter was obtained from the state cannot deprive a court of equity of its power to prevent fraud and protect property rights. The most solemn decrees of courts will be set aside when they are procured by fraud. Much more will the voluntary acts of individuals in forming a corporation. * * *" (Emphasis supplied.)

In accord see also, *Red Seal Refining Co., et al. v. Red Seal Refining Corp.*, 241 P. 762 (Okla., 1925) and *Western Auto Supply Co. v. Western Auto Supply Co.*, 13 F. Supp. 525 (D. C. N. H., 1936).

In the *Western Auto Supply Company* case, the court in granting the relief sought stated in part:

"A foreign corporation can restrain the use by a domestic corporation of a trade name similar to its own when such name is chosen by the domestic corporation with the notice of the name and business of the foreign

corporation even though the latter has obtained no authorization to do business in the state. This principle of law is based upon the prevention of fraud * * *" *Id.* p. 528.

U. S. Light and Heating Company of Maine v. U. S. Light and Heating Co. of New York, 181 Fed. 182 (D. C. S. D. N. Y., 1910), another decision of similar import, is noteworthy because it contains the discerning views of the Honorable Learned Hand. There the statute involved was determined to apply to contract actions alone; however, the facts as observed by Judge Hand are so close to the undisputed circumstances of the case here, that a quotation of a portion of his opinion is most helpful in shaping a judicial sense of direction, particularly where Judge Hand said, p. 183:

> "Upon the merits I have no doubt that Moore's effort was either to embarrass the New Jersey Company by preventing it from getting a New York license, or to set up a business which should divert or disarrange the complainant's business. The case is quite devoid of the usual excuses and defenses, and seems to me to be a more impudent effort by a retiring or discharged employe to seize part of the business, than I have ever before met with. An especially flagrant fact is that Moore organized the company—which is the most obvious cover for himself alone—while he was yet in the employ of the New Jersey company. * * *"

By substituting the name "Michael" in place of "Moore" Judge Hand's observations might well have been a description of the situation presented in the case here. Of course, Judge Hand enjoined the defendant company from using the plaintiff's corporate title.

These decisions are well reasoned, persuasive, and adhere to the same basic equitable principles followed by the Illinois Courts. As found by the District Court, plaintiff

has been injured by defendant's recent incorporation in Illinois, utilizing plaintiff's exact corporate title. If, as defendant argues, plaintiff is barred by Section 157.125 of the Illinois Business Corporation Act from maintaining this action, then plaintiff is totally without remedy.

The Court of Appeals below properly ruled that the Act did not bar plaintiff from maintaining this action for equitable relief, and in so doing, properly followed the long settled law and fundamental principles of equity as applied in *Scalise, et al. v. National Utility Services Inc.*, 120 Fed. 2d 938 (5th Cir. 1941) and *General Film Co. of Missouri v. General Film Co. of Maine*, 237 Fed. 64 (8th Cir. 1916) and as expressed in many Illinois decisions.

It is a basic tenet of equity that:

> "* * * one who prevents the performance of a condition, or makes it impossible by his own act, will not be permitted to take advantage of the non-performance. * * *" 3 Story's Equity Jurisprudence, 14th Ed., § 1741, p. 360.

This case is one where the jurisdiction of an equity court is peculiarly pertinent. The injunctive relief sought is the appropriate remedy and is of purely equitable cognizance. As the author of Pomeroy's Equity Jurisprudence points out as to cases involving fraud:

> "In conferring these reliefs which are purely equitable, and therefore exclusive, the power of equity knows no limit. The court can always shape its remedy so as to meet the demands of justice in every case, however peculiar." 3 Pomeroy's Equity Jurisprudence, 5th Ed., § 910, p. 574.

See also; *Nikola v. Campus Towers, etc.*, 303 Ill. App. 516, 525, 25 N. E. 2d 582; *Backs v. Nelson Const. Co.*, 271 Ill. App. 137; *Skelly Oil Co. v. Universal Oil Products Co.*, 338 Ill. App. 79, 84, 86 N. E. 2d 875, 881 (1949).

The defense of non-compliance with § 125 of the Illinois Corporation Code is not jurisdictional. It merely affords abatement of an action pending compliance. This was determined in *Emcee Corporation v. George,* 293 Ill. App. 240, 12 N. E. 2d 333 (1937) shortly after the passage of the present Corporation Code.[3] In that case judgment had been granted plaintiff when defendant petitioned to vacate the judgment and dismiss the action for failure of the plaintiff to have qualified as a foreign corporation under § 125 of the Corporation Code, the court refused, saying (12 N. E. 2d, p. 335):

> "Under this section, if we assume that plaintiff, a foreign corporation, was transacting business within this state without having obtained a certificate of authority from this state, contrary to the provisions of the statute, we think the suit ought not to be dismissed because if it should thereafter obtain such certificate it could then proceed with the suit."

See also *Jorgenson v. Baker,* 21 Ill. App. 2d 196, 157 N. E. 2d 773 (1959), cert. den. 361 U. S. 962, 4 L. Ed. 2d 543, 80 S. Ct. 590 (1960) and *Sternberg Dredging Co. v. Sternberg's Estate,* 351 Ill. App. 514, 115 N. E. 2d 557 (1953) indicating that the bar imposed upon a corporation which has failed to pay its franchise taxes is not absolute but

3. The case relied upon by defendant for the contrary position (Def. Brief pp. 16-17) was decided under the provisions of prior and quite different Corporation act. *J. Walter Thompson Co. v. Whitehead,* 185 Ill. 454, 56 N. E. 1106 (1900) dealt with the Act of 1897 which provided that ". . . no foreign corporation . . . which shall fail to comply with this act, can maintain any suit or action, either legal or equitable, in any of the courts of this State upon any demand, whether arising out of contract or tort." The 1897 Act contained no provision permitting maintenance of an action when "such corporation shall have obtained a certificate of authority" as is provided by present law. It contained no provision comparable to that in the 1937 Act saving the validity of contracts and acts of unregistered corporations or authorizing the defense of actions. Clearly decisions on the effect of this earlier Act are not authority for the determination of the application of § 125 of the Business Corporation Code of 1937.

merely precludes maintenance until the defect is cured, when it may then continue the prosecution of the suit.

Being personal and not jurisdictional, the defense may be waived if not asserted and is quite similar to a plea of a statute of frauds where the applicable rule is:

> "It is a most important principle, thoroughly established in equity, and applying in every transaction where the statute is invoked, that the statute of frauds, having been enacted for the purpose of preventing fraud, shall not be made the instrument of shielding, protecting, or aiding the party who relies upon it in the perpetration of a fraud, or in the consummation of a fraudulent scheme." 3 *Pomeroy's Equity Jurisprudence,* 5th Ed., § 921, pp. 618-619.

The ability to assert the bar of the Illinois statute arises, in this case, as a consequence of the wrongful and fraudulent acts of the defendant and John R. Michael. Consequently, this is a proper case for the application of the doctrine of equitable estoppel to prevent the assertion of the defense and the consummation of defendant's fraud. It is stated authoritatively in 19 *American Jurisprudence,* Estoppel, Section 41, page 640, as follows:

> "Generally speaking, however, equitable estoppel is a rule of justice which in its proper field prevails over all other rules. It is a rule of last resort, but when it is aroused into activity, it stays the operation of other rules which have not run their course, when to allow them to proceed further would be a greater wrong than to enjoin them permanently. It may, in proper cases, operate to cut off a right or privilege conferred by statute or even by the Constitution. Since, as has already been stated, estoppel in pais operates as a shield and not as a sword, the estoppel should not be given effect beyond the extent of the injury or beyond what is necessary to accomplish justice between the parties, but should be limited to

saving or making whole the person in whose favor it arises or, in other words, to what may be necessary to put the parties in the same relative position which they would have occupied if the predicate of the estoppel had never existed. In some cases it is given effect only to the extent of cutting off resort to a particular remedy without affecting the ultimate right."

It is elsewhere in this work stated (Id. Estoppel Section 34, page 634):

> "Equitable estoppel or estoppel in pais is a term applied to a situation where, because of something which he has done or omitted to do, a party is denied the right to plead or prove an otherwise important fact * * *."
>
> "The proper function of equitable estoppel is the prevention of fraud, actual or constructive, and the doctrine should always be so applied as to promote the ends of justice and accomplish that which ought to be done between man and man." Id. Section 39, page 637.

The decisions of the Illinois courts have shown consistent adherence to these basic equitable doctrines.[4] *Lincoln Park Arms Building Corporation v. U. S. Fidelity & Guaranty Co.*, 287 Ill. App. 520, 531, 5 N. E. 2d 773 (1936); *Laughlin v. Irwin*, 262 Ill. App. 40, 54 (1931); *Jennings v. Bituminous Casualty Corp.*, 47 Ill. App. 2d 243, 249, 197 N. E. 2d 513, 517 (1964); and *Malloy v. City of Chicago*, 369 Ill. 97, 104, 15 N. E. 2d 861 (1938).

The philosophy underlying these established equitable principles finds its root in the Constitution of the State of

4. Defendant argues that it may not be estopped to assert the bar of the Illinois Act because to do so would contravene the public policy of Illinois. That argument is not applicable. The purpose of § 125 of the Illinois Corporation Code is to encourage the qualification of foreign corporations; the very purpose for which this suit was commenced. The closing of the doors of the courts to unregistered corporations is not the end sought by the Act, it is only a means to force compliance.

Illinois, Article II, Section 19 which requires that every person who has suffered a wrong be afforded a remedy. In compliance courts of Illinois have often repeated that where the law does not supply a specific remedy a court of equity has the power to do so.

In *Skelly Oil Company v. Universal Oil Products Co.*, 338 Ill. App. 79, 86 N. E. 2d 875 (1949) the court in discussing the above cited Illinois Constitution mandate said, p. 84:

> "This is a clear mandate to the courts, that wherever the legislature has failed to provide a remedy, the courts must. This constitutional protection should be here invoked, especially where the legislature has not provided a remedy. Courts should not be helpless to find a remedy for a fraud of the instant type. If the statute fails to provide a remedy, the court can, as it has in many instances under the common law and equitable principles. * * *"

The court below properly concluded that defendant, the *alter ego* of John R. Michael, is guilty of intentionally wrongful conduct and is attempting to insulate itself from responsibility for its wrongful conduct by setting up plaintiff's failure to qualify in Illinois, when as a matter of proven fact, John R. Michael, the creator, organizer and sole stockholder of defendant, was, himself, the very person responsible for the failure of plaintiff to secure proper qualification. That such conduct is wrongful and justifies unhesitating equitable relief is amply clear from authorities. *Scalise v. National Utility Service, Inc.*, 120 Fed. 2d 938, 940 (5th Cir., 1941); *The Peck Bros. Co. v. Peck Bros.*, 113 Fed. 291, 298-303 (7th Cir., 1902); *General Film Co. of Missouri v. General Film Co. of Maine*, 237 Fed. 64, 66, 67 (8th Cir., 1916).

The District Court in the instant case properly exercised its own sound judgment as to the determination that the courts of Illinois would make of this issue. *Daily v. Parker*, 152 F. 2d 174 (7th Cir. 1945). Since that de-

cision is in accord with the general weight of authority throughout the United States and is properly founded and based upon the general law of Illinois and the fundamental principles of equity recognized by the Illinois courts, it was properly sustained. *Wisconsin Screw Co. v. Fireman's Fund Insurance Company,* 297 F. 2d 697 (7th Cir. 1962).

II.

The Decision of the Court of Appeals Does Not Involve the Determination of Any Federal Question.

Petitioner suggests that the Court of Appeals failed to decide an important federal question in accord with the decision of this Court in *Woods v. Interstate Realty Co.,* 337 U. S. 535, 93 L. Ed. 1524, 69 Sup. Ct. 1235 (1949). However, as clearly appears from its opinion, the Court of Appeals determined that under Illinois law the Illinois courts would entertain this action and that, therefore, the issue of *Woods* was not presented. Illinois law was applied and followed throughout. No federal issues have been determined and there are no special or important reasons for this Court to exercise its discretion to review.

The instant case does not involve any unique principle or matter of public importance, and therefore should not concern this Court. It is simply a case where defendant's cynical attempt to create a shield from his own wrongdoing was given the short shrift it deserved.

CONCLUSION.

The Petition for Writ of Certiorari should be denied.

Respectfully submitted,

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